
CT BUDGET BRIEFS

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CONNECTICUT'S "CREDIT CARD": STATE BONDING FOR SFY 2001

Highlights Of Revised SFY 2001 Budget

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Shelley Geballe, CT Voices for Children

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The traditional purpose of a governmental budget is threefold: it outlines necessary and desirable public services; **it defines the resources that are required to provide these services**; and it estimates how much these services will cost. The budget is the fundamental policy document of every level of government. As proposed, enacted and implemented, it represents a consensus on what government realistically can and ought to do.

FY 2000-2001 Economic Report of the Governor (p. 151)

I. A Bit of Background

Like many Connecticut families, Connecticut finances some of its expenses with its "credit card" -- using state bond funds. The state borrows money to pay for capital projects such as school and prison construction, just as families borrow money to purchase or renovate a home. The state also borrows money for certain financial assistance programs that provide funds to municipal and non-government entities through grants and/or loans.

But as is true with a family that relies on its credit card, when the state uses borrowed money to meet expenses it raises two important issues. First, it costs more in the long run to use borrowed money since one has to pay back interest as well as the principal. For example, the *total* cost to the state for the \$263.7 million in new General Obligation bonds the General Assembly authorized for FY 01 is projected to be \$429.8 million (of which \$166.1 million is interest costs).

Second, as debt increases, debt service payments increase too, cutting into the funds that the state – or a family – has available to meet its other expenses. In fact, in difficult economic times a high debt load can cripple a state's ability to respond effectively to the fiscal challenges it faces, just as it would cripple a family.

State bonding over the past decade shows three troublesome, interrelated trends.

1. **Bonding to avoid the spending cap.** Importantly, when the state “spends” money using bond funds, this “spending” does not count against the state spending cap as an appropriated expenditure. It is not surprising, therefore, that ever since the state spending cap was adopted in the early 1990s, the state increasingly has turned to bonding as a funding mechanism. In FY 92, the net General Fund indebtedness was \$3.673 billion. By FY 00 net General Fund indebtedness (including 1999 bond bills) had increased to \$10.548 billion, and FY 01 indebtedness to \$11.118 billion. Connecticut now leads the nation in state tax supported debt per capita. Bonded debt per capita has more than doubled over the past decade, growing to \$2,857 by the end of Fiscal Year 1999.
2. **Bonding for ongoing programs.** In addition to troubling increases in the *total* amount of General Fund-supported debt Connecticut has incurred over the past decade is its trend to use some significant portion of its bond funds for expenses and charges that are not long-term investments, but rather on-going operating costs of state government. It is like a parent with \$200 cash in his pocket and adequate cash in his checking account taking out a loan to pay for groceries, or charging them to a credit card.

In Fiscal Year 1999, Connecticut issued \$1.008 billion in new General Fund-supported debt. Of this \$1.008 billion in new debt, the State Comptroller estimates that \$454 million was for infrastructure or other assets benefiting future generations of taxpayers. However, the remaining \$554 million was used to fund ongoing state operating expenses. The State Comptroller warns that “Bonding used to provide tangible benefits to future generations is justifiable, bonding for ongoing programs that could be considered part of normal government operating expenses is a more dubious practice.” [*The Comptroller’s Report*, January, 2000, p. 14]

3. **Increasing debt service.** With increasing indebtedness comes increased debt service payments, reducing the proportion of the budget that can be appropriated for other purposes. In SFY 1989, just before Connecticut entered the last recession, debt service charges were \$385 million, or 6.2% of the total state budget (and 3.8% of the General Fund budget). By SFY 2001, because our bonded indebtedness has soared, debt service is projected to be \$1.4 billion, or 11.8% of the total state budget (and 9.1% of the General Fund budget).

II. SFY 2001 Bond Authorizations *Entering* the 2000 General Assembly Session: A Summary

Going into the 2000 General Assembly Session, \$1.144 billion of new General Obligation bonds had already been authorized for SFY 01: a) \$1.012 billion in General Obligation Bonds authorized in the 1999 Session; and b) \$132 million in authorizations from prior legislation sessions (of which \$100 million was for U Conn

2000, \$27 million for projects to revitalize Hartford, and \$5 million for CT State University System projects).

Of the \$1.012 billion in new General Obligation Bonds for SFY 01 authorized in the 1999 General Assembly Session, the largest amounts were authorized to be used for the following purposes:

- **Department of Education:** \$428.1 million, including:
 - School Construction Grants. \$400 million for grants-in-aid (\$339 million for principal and \$61 million for interest subsidy)
 - Regional Vocational-Technical Schools. \$15 million

- **Office of Policy and Management:** \$179.92 million, including:
 - Urban Act Grants. \$125 million
 - Local Capital Improvement Program (LOCIP). \$30 million
 - Capital Equipment Purchase Fund: \$21 million

- **Department of Environmental Protection:** \$129.15 million, including:
 - Clean Water Program grants-in-aid: \$53.1 million
 - Recreation and natural heritage trust program: \$20 million
 - Grants-in-aid to municipalities for open space acquisition: \$12 million
 - State park renovations/improvements: \$10 million
 - Grants-in-aid to towns for land acquisition, parks, sewer projects, environmental cleanup: \$10 million
 - Hazardous waste and contamination remediation projects: Total of \$9 million.

- **Regional Community-Technical Colleges:** \$71.65 million (of which \$53 million is for Three Rivers Valley Community-Technical College)

- **Department of Economic and Community Development:** \$53 million for:
 - Economic assistance: \$48 million (including \$35 million in Manufacturing Assistance Act grants-in-aid to companies, \$5 million in Urban Action grants-in-aid, \$5.5 million grant-in-aid to CT Housing Finance Authority for an Assisted Living Program, \$3.5 million grant-in-aid to Science Museum to develop new facility in East Hartford)
 - Housing: \$5 million (for moderate and low cost housing, housing for homeless, elderly housing, etc.)

- **Connecticut State University System:** \$44.84 million

- **Judicial Department:** \$20 million (of which \$10 million is for a new courthouse complex in Stamford)

III. New Bond Authorizations for SFY 2001: A Summary

The Bond act passed in May, 2000 added an additional \$283.7 million in General Obligation bond authorizations (and reduced prior authorizations by \$70 million) for a net addition of \$213.6 million in tax-supported bond authorizations. There is now a total of \$1.358 billion of tax-supported General Obligation bonds authorized for FY 01.

Of the \$283.7 million in *new* and *increased* General Obligation bond authorizations¹ for SFY 01:

- \$116 million (41%) are for Department of Economic and Community Development initiatives
- \$54 million for the Department of Education
- \$38.5 million for the Connecticut State University System
- \$25 million for the Department of Correction
- \$20 million for the University of Connecticut, and
- the balance for other initiatives.

IV. New Bond Authorizations for SFY 2001: A Bit More Detail

The largest additions the General Assembly made in its 2000 Session in SFY 01 General Obligation bond authorizations were in the areas described below (section references are to sSB 140, as amended). The FY 2000 bond act authorized:

- ***Department of Economic and Community Development***

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- **Manufacturing Assistance Act Grants-in-Aid.** \$66 million in bond funds are authorized under the Manufacturing Assistance Act for grants-in-aid to Union Bank of Switzerland (Warburg, Dillon, Read) under terms of its agreement with the state as outlined in sSB 523. In addition to other tax benefits outlined in sSB 523, the \$66 million in financial assistance under the Manufacturing Assistance Act will be payable to the bank in installments as follows: \$23 million in FY 01, \$23 million in FY 02, \$10 million in FY 03, and \$10 million in FY 04. In FY 03 and FY 04, \$7 million of the \$10 million scheduled to be awarded in each year is contingent upon the company constructing a new office tower (phase II of construction.) (section 66)

¹ . In addition to these new General Obligation bond authorizations, the 2000 bond act increased Special Tax Obligation Bonds by \$21 million for the Transportation Fund, and added \$21 million in Bradley Airport revenue bonds for a net total bond authorizations by \$274.6 million for FY 2000-01.

- **Fort Trumbull Peninsula.** \$50 million in new bond funds for grants-in-aid to New London for economic development and for additional costs of improvements to the Fort Trumbull peninsula. The bond act makes \$30 million available on July 1, 2000 and \$20 million on July 1, 2001. (section 53)
- **Department of Education: School Construction Grants.** \$54 million for the principal portion of school construction grants-in-aid to towns is added to the \$339 million already authorized for SFY 01 school construction grants (section 60). The bond act also cancels \$44 million of the \$61 million provided for the school construction interest subsidies that was authorized in 1999 for FY 01 (section 61), using – instead -- \$43.632 in FY 00 surplus funds to fund these interest subsidies (under the Appropriations Act, sHB 5216).
- **Connecticut State University System (CSUS).** A total of \$38.5 million in new bond funds to CSUS in FY 01 for various projects at its four campuses. This includes \$29.7 million for Central Connecticut State University, \$4.8 million for Southern Connecticut State University, \$3.5 million for Eastern Connecticut State University, and \$0.5 million for Western Connecticut State University. It cancels a total of \$12.2 million from projects previously authorized at the four campuses. (sections 2(c)(1)(A)-2 (c)(1)(F), 2(c)(2), 2 (c)(3), 2 (c)(4), 18, 27, 28, 35-37, 39, 44)
- **Department of Correction.** \$25 million in new bond funds to DOC for renovations and improvements to prison facilities to increase the number of inmates that can be housed at existing prison facilities. (section 2(e)) The bond act also cuts \$1.71 million in funds for grants-in-aid to community residential facilities for construction, renovation and repairs. (section 16)
- **University of Connecticut: Waterbury Campus.** \$20 million in additional bond funds for the Waterbury campus. Of this total, \$10 million is provided with the stipulation that the Department of Higher Education approve the expansion of the campus's bachelor's and master's degree programs in business. (sections 2(b)(1), 2(b)(2), and 63)
- **Department of Environmental Protection:**
 - **Landfill Closure.** Increases by \$10 million (from \$5 million to \$15 million) the bond funds available as grants-in-aid to municipalities in FY 01 for improvements in incinerators and the closure of landfills, including bulky waste landfills. (section 52)
 - **Residential underground storage tanks.** Increases from \$2 million to \$4 million the amount of bond funds available in FY 01 for grants to clean-up contaminated soil and/or remove and replace leaking underground petroleum storage tanks. (sections 51, 55)

- **Department of Children and Families (DCF).** \$9 million in new bond funds for the development of community residential facilities for juvenile offenders, including acquisition of land and/or buildings. (section 2(f))
- **Department of Mental Health and Addiction Services (DMHAS) facilities.** \$5 million in new bond funds to be added to the \$750,000 already authorized for FY 01 for grants-in-aid to private non-profit organizations for improvements to various community-based facilities (section 54). The bond act also cuts \$5 million in bond funds for improvements and new construction associated with DMHAS' master campus plan (section 48) and \$425,000 for security improvements at various inpatient facilities (section 14). The bond act also provides a grant-in-aid to a private non-profit for the design and construction of an addition to the CT Mental Health Center in New Haven (section 67).
- **Regional Community-Technical College System.** \$3.2 million in new funds for the development of consolidated facilities at the Capital Community Technical College (section 2(d)).

Other provisions.

The 2000 bond act also:

- allows municipalities to use Local Capital Improvement Project funds on flood control projects (section 58) and eliminates the requirement that towns use LOCIP funds within 5 years (section 59)
- approves \$1 million in bond funds to renovate the West Hartford Armory and cuts \$1 million in bond funds to renovate the New Haven Armory (sections 2a and 11)
- cuts \$1 million in bond funds for grants-in-aid for the Connecticut Small Business Innovation Research Assistance Program (section 20) and \$395,100 from the Connecticut Innovations' program for development and marketing of new technologies and products (section 64)
- cuts \$3 million in bond funds that DMR was to use for renovations to various DMR operated or community-based DMR-funded facilities (sections 24, 30, 33)
- redirects bond funds for the Judicial Department that were authorized in PA 99-242 (section 21(n)(1) for ADA-code compliance and other improvements to use for a state-owned building in Hartford for use as an appellate court.

Sources

Connecticut General Assembly, Office of Fiscal Analysis, *Highlights of the Revised FY 01 Budget and Statutory Formula Grants to Municipalities* (May 3, 2000)

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State Comptroller, *The Comptroller's Report* (January, 2000)